

Description of New Incremental Alternatives

Regressivity

Replace sales tax exemption for food with a swipe card with a fixed amount to pay sales tax.

The swipe cards would be sent to every household in Washington (about 2,272,000). The food exemption is estimated to be about \$670 million in CY 05. The value of the swipe card would be about \$300. These could be used by households to pay sales tax on any purchase.

Since this would be a fixed amount, there would be proportionately more tax relief for low income households. This would replace the sales tax on food, which is an imperfect way to make the sales tax less regressive.

Adding food to the sales tax base creates a less volatile tax base. Broadening the sales tax base would expand problems for border retailers.

This would be a very complicated alternative to administer. It would be difficult to maintain a current mailing list and costly to send these to every household. Households would have to keep track of and carry the swipe cards. Retailers would have to adjust their swipe card and POS (Point of Sale) equipment capabilities. Some retailers may not have the equipment needed. On the other hand, removing sales tax from food would add some simplicity for retailers.

Give sales tax relief to EITC families via a swipe card.

A fixed amount swipe card would be sent to all households that take the EITC credit. This would target tax relief to low income working families.

The same administrative complications would extend to this alternative. However, they would be on a smaller scale, since fewer households would be involved.

Erosion of the Tax Base

Broaden property tax to motor homes and boats.

Property tax would extend to motor homes and boats that could be used to live in (i.e. those that have a bathroom). Under this alternative, motor homes and boats would be treated the same as second homes.

Eliminate the sales tax exemption for gasoline

This would broaden the tax base. However, gasoline tax is regressive, and gasoline sales are volatile.

Neutrality

B&O Credit for manufacturers for B&O taxes paid "upstream."

This credit would address the problem of pyramiding for manufacturers, (the industry that suffers the most pyramiding of B&O). Manufacturers would take a credit for B&O tax paid on inputs. In other words, they would take a credit based on their inputs purchased in Washington.

Details of this proposal are still being determined.

Decrease manufacturing B&O rate and increase services rate.

This alternative addresses the inequities in pyramiding of the B&O. Manufacturing B&O pyramids approximately five or six times, while services B&O pyramids less than two times.

Transparency

Decrease B&O rates and increase sales tax rates

This alternative addresses the fact that at least a portion of B&O is shifted to consumers. The portion shifted to consumers is hidden. The shift from B&O would make the hidden tax explicit. This could also improve business vitality.